

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Elsie Area Fire Association	County Clinton
Audit Date 3/31/05	Opinion Date 8/5/05	Date Accountant Report Submitted to State: 8/19/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

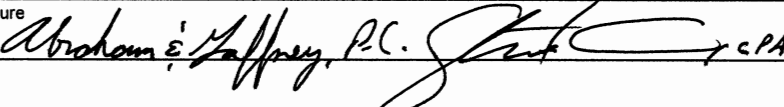
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge Road, Ste 100	City East Lansing	State MI	ZIP 48823
Accountant Signature 		Date 8/19/05	

**Elsie Area Fire Association
Elsie, Michigan**

FINANCIAL STATEMENTS

March 31, 2005

Elsie Area Fire Association

Elsie, Michigan

March 31, 2005

BOARD MEMBERS

Mr. Kam Washburn

Chair

Mr. Lonnie McCullough

Co-Chair

Mr. Clyde Gilbert

Secretary/Treasurer

Mr. Robb Maynard

Board Member

Mr. Don Taylor

Board Member

Elsie Area Fire Association

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

**Members of the Elsie
Area Fire Association
Elsie, Michigan**

We have audited the accompanying financial statements of the governmental activities and the major fund of Elsie Area Fire Association as of and for the year ended March 31, 2005, which collectively comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the governmental activities and the major fund of the Elsie Area Fire Association as of March 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Association has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2005

New Financial Reporting

Starting with fiscal year ended March 31, 2005, the Elsie Area Fire Association, (the "Association") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Association's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Association. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Association's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Association's financial health.

This discussion and analysis of financial performance provides an overview of the Association's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Association's financial statements.

Comparative analysis will be provided in future years, as it is not required in the first year of implementation of GASB #34.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- The assets of the Association exceeded its liabilities at the close of the most recent year by \$125,008 (net assets).
- The Authority's total net assets decreased by \$7,254, as the result of current year activity.
- The Operating Fund finished the 2005 year with a decrease to fund balance of \$3,682. The fund ended the 2005 year in a deficit position of \$2,832.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Elsie Area Fire Association as a whole and present a longer-term view of the Association's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the citizens have funded the full cost of providing public safety services.

The fund financial statements present a short-term view; they tell us how the citizens' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Elsie Area Fire Association in more detail than the government-wide financial statements by providing information about the Association's governmental fund.

Elsie Area Fire Association

Management's Discussion and Analysis

The Association as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005. A comparative analysis of data will be presented in future years when the information is available.

Assets	
Current assets	\$ 2,570
Noncurrent assets	<u>259,446</u>
Total assets	262,016
Liabilities	
Current liabilities	34,790
Noncurrent liabilities	<u>102,218</u>
Total liabilities	<u>137,008</u>
Net Assets	
Invested in capital assets, net of related debt	133,638
Unrestricted	<u>(8,630)</u>
Total net assets	<u>\$ 125,008</u>

The Association's total net assets were \$125,008 at March 31, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were in a negative position by \$8,630 at the end of the year. The net asset invested in capital assets were at \$133,638. The management's discussion and analysis will present a condensed comparative statement of net assets next year when we have two years of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

Revenue	
Program revenue:	
Charges for services	\$ 77,389
General revenue:	
Interest revenue	30
Miscellaneous	<u>7,636</u>
Total revenue	85,055
Program Expenses	
Public safety	85,237
Interest on long-term debt	<u>7,072</u>
Total expenses	<u>92,309</u>
Change in Net Assets	<u><u>\$ (7,254)</u></u>

Governmental Activities

The Association's governmental revenues totaled \$85,055 with the greatest revenue sources being charges for services. Charges for services make up approximately 91 percent of total governmental revenue.

The Association incurred expenses of \$92,309 during the year. The majority of the governmental expenses incurred are associated with the public safety function.

The Association's Funds

The analysis of the Association's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the individual fund, not the Elsie Area Fire Association as a whole. The Association's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Association's only fund for the fiscal year ended March 31, 2005 was the Operating (Special Revenue) Fund.

The Operating Fund pays for all of the Association's governmental services. The sole service provided during the fiscal year was fire protection, which incurred current expenditures of approximately \$58,467 for the fiscal year. The Association also incurred expenditures of \$30,270 for the purposes of retirement of debt related to fire protection equipment.

General Fund Budgetary Highlights

The Association collected revenues of \$12,434 less than originally anticipated. The Association also expended \$10,701 less than originally anticipated. These factors combined resulted in the Association ending the year with a fund balance that was \$1,733 less than budgeted. The Association ended the year with a fund deficit of \$2,832.

Capital Assets and Debt Administration

At the end of the fiscal year, the Association had \$259,446 invested in fire service vehicles and equipment (net of accumulated depreciation).

The Association issued no new debt during the year. At year-end the Association had remaining debt outstanding on capital leases. The balances, \$125,808, were the only long-term debt outstanding and are due and payable through 2013. The 2006 principal payments of \$23,590 are considered current liabilities in the audited financial statements and the remaining balance of \$102,218 is considered noncurrent.

Contacting the Association's Management

This financial report is intended to provide our citizens, customers, and investors with a general overview of the Association's finances and demonstrate the Association's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Elsie Area Fire Association Treasurer at 989-723-6368.

BASIC FINANCIAL STATEMENTS

Elsie Area Fire Association
STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,570
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>259,446</u>
TOTAL ASSETS	262,016
LIABILITIES	
Current liabilities	
Accounts payable	1,906
Accrued liabilities	3,496
Accrued interest payable	5,798
Current portion of long-term debt	<u>23,590</u>
TOTAL CURRENT LIABILITIES	34,790
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>102,218</u>
TOTAL LIABILITIES	<u>137,008</u>
NET ASSETS	
Invested in capital assets, net of related debt	133,638
Unrestricted	<u>(8,630)</u>
TOTAL NET ASSETS	<u><u>\$ 125,008</u></u>

See accompanying notes to financial statements.

Elsie Area Fire Association

STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

		Program Revenues	Net (Expense) Revenue and Change in Net Assets
Function/Program	Expenses	Charges for Services	Governmental Activities
Governmental activities			
Public Safety	\$ 85,237	\$ 77,389	\$ (7,848)
Interest on long-term debt	<u>7,072</u>	<u>-</u>	<u>(7,072)</u>
Total	<u>\$ 92,309</u>	<u>\$ 77,389</u>	(14,920)
General revenues			
Interest			30
Miscellaneous			<u>7,636</u>
Total general revenues			<u>7,666</u>
Change in net assets			(7,254)
Net Assets, beginning of year			<u>132,262</u>
Net Assets, end of year			<u>\$ 125,008</u>

See accompanying notes to financial statements.

Elsie Area Fire Association

GOVERNMENTAL FUND BALANCE SHEET

March 31, 2005

ASSETS

Cash

\$ 2,570

LIABILITIES AND FUND DEFICIT

LIABILITIES

Accounts payable

\$ 1,906

Accrued liabilities

3,496

TOTAL LIABILITIES

5,402

FUND DEFICIT

Unreserved - undesignated

(2,832)

TOTAL LIABILITIES AND FUND DEFICIT

\$ 2,570

See accompanying notes to financial statements.

Elsie Area Fire Association

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2005

Fund deficit - governmental fund **\$ (2,832)**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 594,800	
Accumulated depreciation is	<u>(335,354)</u>	
		259,446

Long-term liabilities, are not due and payable in the current period and therefore
are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Accrued interest payable	(5,798)	
Capital leases payable	<u>(125,808)</u>	<u>(131,606)</u>

Net assets of governmental activities **\$ 125,008**

See accompanying notes to financial statements.

Elsie Area Fire Association

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended March 31, 2005

REVENUES

Charges for services	\$ 77,389
Interest	30
Miscellaneous	<u>7,636</u>

TOTAL REVENUES	85,055
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EXPENDITURES

Current	
Public Safety	
Salaries	20,840
Fringe benefits	1,761
Fuel	1,045
Dues and fees	405
Telephone	1,511
Equipment	3,240
Insurance	22,404
Repairs and maintenance	3,469
Other	3,792
Debt Service	
Principal	24,914
Interest	<u>5,356</u>

TOTAL EXPENDITURES	<u>88,737</u>
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EXCESS OF REVENUES (UNDER) EXPENDITURES	(3,682)
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Fund balance, beginning of year	<u>850</u>
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Fund deficit, end of year	<u><u>\$ (2,832)</u></u>
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See accompanying notes to financial statements.

Elsie Area Fire Association

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

March 31, 2005

Net change in fund balance - governmental fund **\$ (3,682)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Depreciation expense (26,770)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, this amount consisted of:

Capital lease principal retirement 24,914

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable (1,716)

Change in net assets of governmental activities **\$ (5,538)**

See accompanying notes to financial statements.

Elsie Area Fire Association

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF ASSOCIATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Elsie Area Fire Association was created in 1999 by a joint venture agreement between the Townships of Duplain, Chapin, Fairfield, and the Village of Elsie. Each participating unit appoints one (1) representative and the Fire Association appoints one (1) member at large to serve on the committee of the Association. The Fire Chief oversees the day-to-day operations of the Fire Association.

The Association has no stockholders and all monies received are to be used for certain specified purposes in accordance with the joint venture agreement between the constituent municipalities.

Each entity is responsible to pay annually to the Fire Association a per capita charge among all members except the Village of Elsie, which contributes as its per capita share the lease provisions and expenses together with liability insurance on the operations of the Association and its equipment. Other responsibilities including insurance coverages and procedures for termination of services are explicitly detailed in the joint venture agreement. The Association also bills and collects fees from participating municipalities for providing fire protection services.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Elsie Area Fire Association. The Association has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Elsie Area Fire Association contain all the funds controlled by the Association Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Association as a whole.

The statement of activities presents the direct functional expenses of the Association and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Association.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Association's individual major fund.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major fund of the Association is:

- a. Special Revenue Fund - This fund is used to account for all financial resources to be used for fire protection services provided to each participating municipality.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include charges for services and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

The Special Revenue (Operating) Fund budget shown in the financial statements was prepared on a basis not significantly different than the basis used to reflect actual results.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a fund level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity must be approved by the Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Board does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - Continued

- d. Budgeted amounts are reported as originally adopted or amended by the Board during the year. No amendments were made during the year.

6. Cash

Cash consists of checking and savings accounts.

7. Capital Assets

Capital assets include vehicles and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. All assets with a useful life exceeding one (1) year are recorded as capital assets. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Vehicles	20 years
Equipment	5 - 20 years

The Association has no assets that would be classified as infrastructure assets.

8. Comparative Data

Comparative data for the prior year has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

9. Accounting Change

As of April 1, 2004, the Association implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Association's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Association's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Long-term obligations reported on the statement of net assets include capital leases payable of \$150,722, which was previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Accounting Change - Continued

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Elsie Area Fire Association is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Elsie Area Fire Association are at a federally insured credit union located in the State of Michigan with all accounts maintained in the name of the Elsie Area Fire Association.

As of March 31, 2005, the carrying amount and bank balance for the checking and savings accounts as reported on the Balance Sheet was \$2,570 and \$3,242, respectively. The bank balance as of March 31, 2005, was fully insured by the National Credit Union Administration.

Elsie Area Fire Association

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

	Restated Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Governmental activities				
Equipment	\$ 74,800	\$ -	\$ -	\$ 74,800
Vehicles	<u>520,000</u>	<u>-</u>	<u>-</u>	<u>520,000</u>
Totals at historical cost	594,800	-0-	-0-	594,800
Less accumulated depreciation for:				
Equipment	(20,534)	(3,845)	-	(24,379)
Vehicles	<u>(288,050)</u>	<u>(22,925)</u>	<u>-</u>	<u>(310,975)</u>
Total accumulated depreciation	<u>(308,584)</u>	<u>(26,770)</u>	<u>-0-</u>	<u>(335,354)</u>
Capital assets, net	<u>\$ 286,216</u>	<u>\$(26,770)</u>	<u>\$ -0-</u>	<u>\$ 259,446</u>

Depreciation expense was wholly allocated to the lone governmental function (public safety) in the amount of current depreciation expense of \$26,770.

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the Association for the year ended March 31, 2005.

	Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005	Amounts Due Within One Year
Capital leases	<u>\$ 150,722</u>	<u>\$ -0-</u>	<u>\$ 24,914</u>	<u>\$ 125,808</u>	<u>\$ 23,590</u>

Significant details regarding outstanding long-term debt are presented below:

Capital Leases

The Association has entered into three (3) lease purchase agreements, which qualify as capital leases for accounting purposes (title transfers to Association) and therefore they have been recorded at the present value of future minimum lease payments as of the date of inception. The following is additional details regarding the leases.

The Fire Association has entered into three (3) leases for the purchase of firefighting equipment and a tanker. The cost of the equipment and tanker under the lease purchase agreements amounted to \$189,962.

Elsie Area Fire Association

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the capital leases are as follows:

Year Ending March 31,	Capital leases	
	Principal	Interest
2006	\$ 23,590	\$ 6,680
2007	12,577	5,050
2008	13,199	4,428
2009	13,851	3,776
2010	14,535	3,092
2011-2013	<u>48,056</u>	<u>4,824</u>
	<u>\$ 125,808</u>	<u>\$ 27,850</u>

NOTE E: RISK MANAGEMENT

The Association is exposed to various risks of loss including commercial property, equipment, liability, and auto for which the Association carries commercial insurance.

NOTE F: FUND DEFICIT

The Special Revenue Fund of the Association was in a deficit situation for the year ended March 31, 2005, by \$2,832.

REQUIRED SUPPLEMENTARY INFORMATION

Elsie Area Fire Association

Special Revenue Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	Budgeted amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ 97,489	\$ 97,489	\$ 77,389	\$ (20,100)
Interest	-	-	30	30
Other	-	-	7,636	7,636
TOTAL REVENUES	97,489	97,489	85,055	(12,434)
EXPENDITURES				
Current				
Public Safety				
Salaries	28,100	28,100	20,840	7,260
Fringe benefits	2,000	2,000	1,761	239
Fuel	850	850	1,045	(195)
Dues and fees	450	450	405	45
Telephone	-	-	1,511	(1,511)
Equipment	7,275	7,275	3,240	4,035
Insurance	15,050	15,050	22,404	(7,354)
Repairs and maintenance	5,200	5,200	3,469	1,731
Other	10,070	10,070	3,792	6,278
Debt Service				
Principal	24,914	24,914	24,914	-0-
Interest	5,529	5,529	5,356	173
TOTAL EXPENDITURES	99,438	99,438	88,737	10,701
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,949)	(1,949)	(3,682)	(1,733)
Fund balance, beginning of year	850	850	850	-0-
Fund deficit, end of year	\$ (1,099)	\$ (1,099)	\$ (2,832)	\$ (1,733)

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

Member:
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

MANAGEMENT LETTER

Members of the Elsie
Area Fire Association
Elsie, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Elsie Area Fire Association for the year ended March 31, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Association's internal controls and our discussions with management.

1. The Association should adopt an investment policy.

During the course of our audit, it was noted the Association had not adopted an investment policy as required by Michigan Compiled Law. This issue was noted and reported in our audit comments last year.

We suggest the Association prepare a formal investment policy, which complies with the compiled law, and adopt it through Board action as soon as possible.

2. The Association should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Association may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Association Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Association review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Association Board provide a greater review and supervision of employee functions and procedures.

3. The Association should monitor fund balance.

As noted in the financial statements, the Association ended the year in a deficit financial position. As a result, the Association will be required to submit a deficit elimination plan to the State of Michigan.

We suggest the Association review the status of the fund near year-end and make appropriate adjustments when possible to eliminate a deficit.

4. Budgets should be reviewed and amended when necessary.

As noted in the annual financial statements, the budgeted expenditures of the Association exceeded the budgeted revenues such that fund balance was budgeted to end in a deficit position.

The Michigan Public Act 621 of 1978, as amended, provides that the Association adopt a formal budget for the operating fund and that total estimated expenditures shall not exceed the total estimated revenues, including any available unappropriated surplus.

We suggest the Association review the adopted budget to assure that the anticipated fund balance is not in a deficit position. Appropriate budget amendments should be made as needed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated August 5, 2005.

This report is intended solely for the use of management and the Board of the Elsie Area Fire Association and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2005